

MINUTE ITEM

This Calendar Item No. **C82** was approved as
Minute Item No. **82** by the California State Lands
Commission by a vote of **3** to **0** at its **06/26/06**
meeting.

**CALENDAR ITEM
C82**

A 15

PRC 8694

06/26/06

S 5

W 40925
J. L. Smith

**CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE
(NO SURFACE USE) OIL AND GAS LEASE AND
CONSENT TO THE POOLING OF LEASED LANDS,
GEORGIANA SLOUGH,
SACRAMENTO COUNTY**

APPLICANT:

Towne Exploration Company
Attn.: Mr. Clifford L. Conkle, Agent
P. O. Box 520
San Francisco, CA 94104-0520

AREA, LAND TYPE, AND LOCATION:

Approximately 13.86 acres of tide and submerged land in Georgiana Slough,
Sacramento County, California.

BACKGROUND:

Towne Exploration Company (Towne) has submitted a complete application for a negotiated subsurface (no surface use) oil and gas lease on about 13.86 acres in Georgiana Slough, Sacramento County [County] (Exhibit A, attached hereto). Towne has also requested that, simultaneously with the issuance of the oil and gas lease, approval be granted to include the lease in a pooled unit. Because the State land is a waterway, surface locations for oil and gas operations (drill sites) are not available. However, oil and gas resources that may underlie the State's land can be developed and protected pursuant to the California State Lands Commission's (Commission) negotiated subsurface (no surface use) oil and gas lease, which permits the leased lands to be included in a Commission-approved pooled area or unit. Paragraph 22 of the proposed lease provides that the Lessee, with the consent of the State and under terms and conditions approved by the State, to pool or unitize all or part of the leased lands with lands held by the Lessee or others.

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Public Resources Code section 6815(a) authorizes the Commission to negotiate and enter into oil and gas leases on State lands if any of the following exists: 1) wells drilled on private or public lands are draining or may drain oil and gas from the State lands, 2) the Commission determines the State lands to be unsuitable for competitive bidding because of such factors as their small size or irregular configuration or their inaccessibility from surface drill sites reasonably available or obtainable, 3) the State owns a fractional mineral interest in the lands, or 4) the Commission determines the lease to be in the best interests of the State.

Because the Applicant controls, by lease or agreement, private property adjacent to the State land described in Exhibit A, attached hereto, and because the Applicant has county (Lead Agency) approval to drill a well near the State land, and has drilled that well, Commission staff has concluded that the criteria of Public Resources Code section 6815(a) have been satisfied. A negotiated subsurface (no surface use) oil and gas lease with the Applicant will protect oil and gas resources that may underlie the State's land, which is unsuitable for competitive bidding because surface drill sites are not available and wells drilled on the adjacent private property may drain State oil and gas resources.

Towne has drilled and completed the North Isleton 30-1 well. The well is capable of commercial natural gas production. Towne has proposed an operating unit containing approximately 69.52 acres of State and private leased land (described in Exhibit A, attached hereto). The proposed unit would be called "North Isleton 30-1Unit" and would be created for the development and production of natural gas (Exhibit C, attached hereto). Towne has requested that the entire 13.86 acres of State land under the proposed lease be included in the unit. The State's unit share will include the entire lease being applied for, and represent approximately 19.94 percent (19.94%) of the unit. Staff has evaluated the geology and reviewed the proposed unit and has determined that the share of the State's pooled acreages appear to be fair and equitable. Commission staff has determined that it will be economically advantageous to the State to share in the production from the proposed unit.

BASIS FOR CONSIDERATION:

1. Public Resources Code section 6829.2, Public Resources Code section 6832.

OTHER PERTINENT INFORMATION:

1. On December 12, 2005, the Department of Conservation, Division of Oil, Gas and Geothermal Resources issued Permit 605-594 to Conduct Well

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Operations at the project location. The construction of the well pad and subsequent construction of a short gathering line to an existing meter station is located within existing agricultural areas.

2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

3. Drilling term of three (3) years; however, if all or part of the leased lands are included in a Commission-approved pooled area or unit, then drilling operations on and production from lands pooled or unitized with the leased lands shall be deemed to be drilling operations on and production from the leased lands that are included in the Commission-approved pooled area or unit.
4. Annual rental of \$35 per acre (\$490 for approximately 13.86 acres).
5. Royalty of 20 percent on gas and oil.
6. Performance bond or other security in the sum of \$10,000.

EXHIBITS:

- A. Land Description
- B. Site Map
- C. Proposed Declaration of Pooling

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14,

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CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

OTHER FINDINGS:

DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT B, ATTACHED HERETO, AND THAT THE STATE LAND IS UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE WELLS DRILLED ON ALTERNATE DRILLSITES ON THE ADJACENT PRIVATE PROPERTY MAY DRAIN STATE OIL AND GAS RESOURCES.

AUTHORIZATION

1. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH TOWNE EXPLORATION COMPANY. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT B, ATTACHED HERETO, (APPROXIMATELY 13.86 ACRES), A DRILLING TERM OF THREE (3) YEARS, ANNUAL RENTAL OF \$35 PER ACRE (\$490 FOR APPROXIMATELY 13.86 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$10,000.
2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

EXHIBIT A

W40925

LAND DESCRIPTION

A parcel of tide and submerged land in the bed of Georgiana slough situated in Sacramento County, California, said parcel being more particularly described as follows:

BEGINNING at the southerly corner of that parcel of land described in that certain Oil, Gas and Mineral Lease, recorded July 15th, 2005, in Book 20050715 Page 1293 Official Records of Sacramento County said corner being on the right bank of Georgiana Slough; thence northerly along said bank 2,512.96 feet; thence South 51° 21' 56" East 339.92 feet, more or less, to a point on the left bank of said Georgiana Slough; thence southerly along said bank 2,023.75 feet to a point on said bank which bears North 57° 44' 33" East from the point of beginning; thence South 57° 44' 33" West 467.7 feet, more or less, to the point of beginning.

EXCEPTING THEREFROM any land lying landward of the Ordinary High Water Mark of said Georgiana Slough.

END OF DESCRIPTION

Prepared 06-08-2006 by the Boundary Unit of the California State Lands Commission.



000408

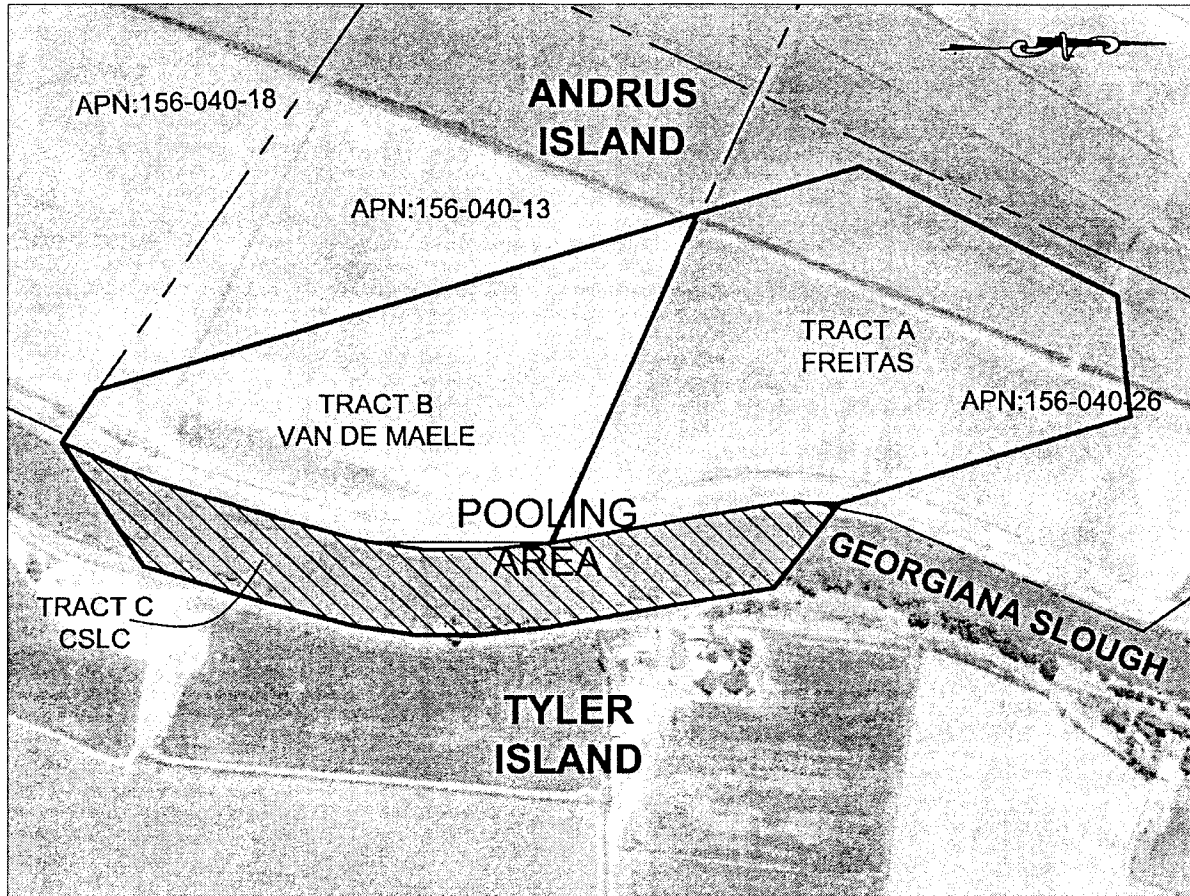
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NO SCALE

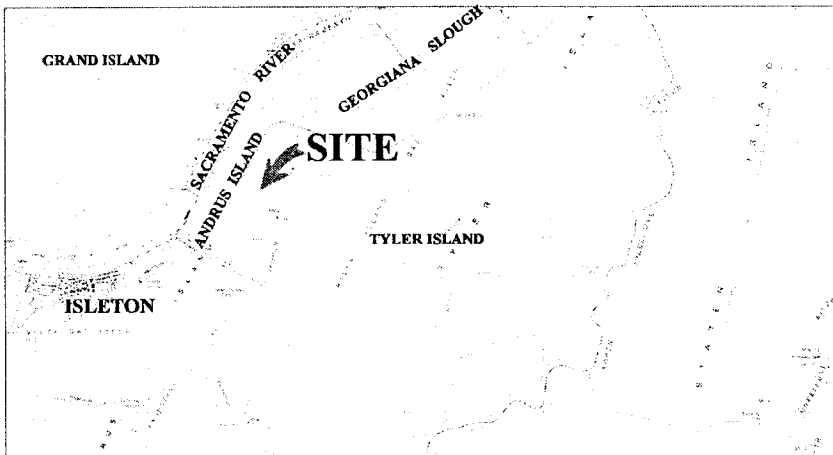
SITE



ANDRUS ISLAND, SACRAMENTO RIVER

NO SCALE

LOCATION



MAP SOURCE: USGS QUAD

This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

Exhibit B

W 40925

**OIL AND GAS LEASE
TOWNE EXPLORATION
SACRAMENTO RIVER
SACRAMENTO COUNTY**



MJP 6/02/06

Recording Requested by and
when recorded return to:

Exhibit C

W 40925

Towne Exploration Company
PO Box 520
San Francisco, CA 94104-0520

Declaration of Pooling
North Isleton 30-1 Unit
Sacramento County, California

THIS DECLARATION OF POOLING, is made and declared effective this 30th day of January, 2006, by Towne Exploration Company, a California limited partnership, hereinafter called "Towne".

WITNESSETH:

THAT WHEREAS, Towne is the present Lessee of certain Oil, Gas and Mineral Leases described on Exhibit "A" herein;

WHEREAS, said leases cover lands described as Unit or Pool Area on Exhibit "A" attached hereto, and by this reference made a part hereof, is hereinafter referred to as the "Unit Pool Area". Said Unit Pool Area covers **69.52** acres, more or less; and

WHEREAS, pursuant to the terms of said leases, Towne desires to create a pool or operating unit for the production and development of oil, gas, gas distillate or condensate and all liquid hydrocarbons therefrom.

NOW THEREFORE, Towne hereby exercises the right to pool and combine all of the said leases owned by Towne within the Unit Pool Area, so as to form in accordance with the terms of said leases, a single pool or operating unit for the production and development of oil, gas, gas distillate or condensate and all liquid hydrocarbons, except oil therefrom.

For the purposes of computing royalties under said leases, should gas, gas distillate, or condensate in paying quantities be produced from any land included in the pool pursuant to this Declaration, such gas so produced shall be allocated to the whole or portion of any lease included in this pool on the ratio of the surface area of any lease included in the pool to the total surface area of all the land included in the pool.

It is not the intention of Towne to exercise the right to pool the leases for oil, but to exercise the right to pool under the gas provisions of said leases.

IN WITNESS WHEREOF, Towne Exploration Company has caused these presents to be executed this 30th day of January, 2006.

TOWNE EXPLORATION COMPANY

By: _____
Edward B. Towne, General Partner

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EXHIBIT "A"

Oil, Gas and Mineral Leases:

Unit Tract A:

Whereas the following Unit Tract A lands were leased as follows:

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1294 of Official Records, executed by Sharon Snitily, a married woman as her separate property, as sole heir of Clara Naylor, also known as Clara Mae Naylor, also known as Clara M. Naylor, deceased, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1295 of Official Records, executed by Ida A. Freitas, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1296 of Official Records, executed by Daniel Winters, an unmarried man, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1297 of Official Records, executed by Julie Winters, an unmarried woman, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1298 of Official Records, executed by Michael Zepeda, a married man as his separate property, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1299 of Official Records, executed by Brian Zepeda, a married man as his separate property, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1300 of Official Records, executed by Andrew Freitas, a married man as his separate property, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1301 of Official Records, executed by Judy Rodrigues, a married woman as her separate property, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

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Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1302 of Official Records, executed by Margaret Winters, a married woman as her separate property, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1303 of Official Records, executed by Nancy Zepeda, a married woman as her separate property, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Oil, Gas and Mineral Lease dated February 1, 2005, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1304 of Official Records, executed by Andrew Freitas and Joseph Freitas, as heirs to the estate of Robert Freitas, also known as Edward Robert Freitas, Jr., deceased, as Lessor and by Towne Exploration Company, a limited partnership, as Lessee.

Whereas said Unit Tract A area contains 30.18 acres, more or less, described as follows:

That portion of Swamp and Overflowed Land Survey No. 364, in the County of Sacramento and State of California, described as follows:

Beginning at the Northeasterly corner of Swamp and Overflowed Land Survey No. 646, in said county and state, being also a point on the Westerly or Right bank of Georgiana Slough; thence North 65° 19' 49" West 1130.48 feet, along the Northeasterly line of said Survey No. 646, to a point which bears North 15° 28' 05" West from a point on the Southerly line of the land in said Survey No. 646 conveyed by E. D. Turner et ux to Harry A. Runyon in Deed dated July 2, 1912 and Recorded in Book 337, page 552 of Deeds, in the office of the County Recorder of said County, and which further bears along the Southerly line of said Runyon land, North 55° 18' West 200 feet from the Southerly corner of said Runyon land; thence North 15° 28' 05" West 535.94 feet; thence North 27° 23' 30" East 900 feet; thence North 84° 39' 23" East 383.16 feet; thence South 16° 04' 01" East 952.25 feet to a point on said Westerly bank of Georgiana Slough; thence Southerly along said Westerly bank, 917.40 to the point of beginning.

Unit Tract B:

Whereas the following Unit Tract B lands were leased as follows:

Oil, Gas and Mineral Lease dated December 15, 2004, a short form of which was Recorded July 15, 2005 in Book 20050715, page 1293 of Official Records, executed by Palmyre Van De Maele as Trustee of the Palmyre Van De Maele Revocable Trust dated August 13, 1991 and by Palmyre Van De Maele as Trustee of the Hubert Van De Maele Family Trust dated October 28, 1997, as Lessor and Towne Exploration Company, a limited partnership, as Lessee.

Whereas said Unit Tract B area contains 25.48 acres, more or less, described as follows:

That portion of Swamp and Overflowed Land Survey No. 646, in the County of Sacramento and State of California, described as follows:

Beginning at the most Southerly corner of the land described in the lease, also described as the most Southerly corner of the land in said Survey No. 646 conveyed by E. D. Turner et ux to Harry A. Runyon in Deed dated July 2, 1912 and Recorded in Book 337, page 552 of Deeds, in the office of the County Recorder of said County; thence along the Southerly line of said Runyon land, North 55° 18' West 200 feet; thence North 15° 28' 05" West 1964.06 feet to a point in the Northerly line of the leased land, being also the Northeasterly line of said Swamp Land Survey No. 646; thence South 65° 19' 49" East 1130.48 feet, along said Northeasterly line, to the Westerly or Right bank of Georgiana Slough; thence Southerly along said Westerly bank 1594.86 feet to the point of beginning.

Unit Tract C:

Agreement between the State of California and Towne Exploration Company, a limited partnership, covering portions of Georgiana Slough within projected Section 30, Township 4 North, Range 4 East, MDB&M.

Whereas said Unit Tract C area contains 13.86 acres, more or less, described as follows:

That portion of Georgiana Slough adjacent to Swamp and Overflowed Land Surveys Numbered 364 and 646, in the County of Sacramento and State of California, described as follows:

Beginning at a point on the Westerly or right bank of Georgiana Slough at the most Southerly corner of the land in said Survey No. 646 conveyed by E. D. Turner et ux to Harry A. Runyon in Deed dated July 2, 1912 and Recorded in Book 337, page 552 of Deeds, in the office of the County Recorder of said County; thence Northerly along said Westerly bank of Georgiana Slough 2512.96 feet to a point; thence South 51° 21' 56" East 339.92 feet, more or less, to a point on the Left or Easterly bank of said slough; thence Southerly along said Easterly bank 2023.75 feet to a point thereon bearing North 57° 44' 33" East from the point of beginning; thence South 57° 44' 33" West 467.7 feet, more or less, to the point of beginning.

Unit Pool Area (perimeter description of Unit Tract A, Unit Tract B and Unit Tract C):

That portion of Swamp and overflowed Land Surveys Numbered 364 and 646 and of Georgiana Slough adjacent thereto, in unincorporated area within the County of Sacramento and State of California, described as follows:

Beginning at a point on the Westerly or right bank of Georgiana Slough at the most Southerly corner of the land in said Survey No. 646 conveyed by E. D. Turner et ux to Harry A. Runyon in Deed dated July 2, 1912 and Recorded in Book 337, page 552 of Deeds, in the office of the County Recorder of said county; thence along the Southerly line of said Runyon land, North 55° 18' West 200 feet; thence North 15° 28' 05" West 2500 feet; thence North 27° 23' 30" East 900 feet; thence North 84° 39' 23" East 383.16 feet; thence South 16° 04' 01" East 952.25 feet to a point on said right bank of Georgiana Slough; thence South 51° 21' 56" East 339.92 feet, more or less to the left or Easterly bank of said Georgiana Slough; thence Southerly, along said left bank, 2023.75 feet to a point thereon bearing North 57° 44' 33" East from the point of beginning; thence South 57° 44' 33" West 467.7 feet, more or less, to the point of beginning.

Unit Information and Map for the North Isleton 30-1 Unit or Pooled Area:

	Acres	Percent
Ida A. Freitas, et al = Unit Tract A	30.18	43.41197%
Palmyre Van De Maele, Trustee= Unit Tract B	25.48	36.65132%
State of California = Unit Tract C	13.86	19.93671%
Total	69.52	

